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FM AMEMBASSY BISHKEK
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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE IMMEDIATE
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RHEFDIA/DIA WASHDC IMMEDIATE
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RUEKJCS/JOINT STAFF WASHDC IMMEDIATE
RUEHGV/USMISSION GENEVA IMMEDIATE 1618
RUEHVEN/USMISSION USOSCE IMMEDIATE 3673
RUCNDT/USMISSION USUN NEW YORK IMMEDIATE 3066
RUEHNO/USMISSION USNATO BRUSSELS BE IMMEDIATE
RUEHBS/USEU BRUSSELS IMMEDIATE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 000010

SIPDIS

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TAGS: [ENRG](#) [ECON](#) [PREL](#) [KG](#)

SUBJECT: KYRGYZSTAN'S ENERGY INFRASTRUCTURE INVESTMENT PLANS

REF: A. BISHKEK 007

[1](#)B. 2009 TASHKENT 1904

Classified By: CDA Larry L. Memmott, Reason 1.4 (b) and (d).

[1](#)1. (C) Summary: The Kyrgyz Government plans to make large investments in its electricity infrastructure over the next few years in order to increase generation capacity, create an electricity transmission system that would be potentially independent of its neighbors, and upgrade its distribution network. The price tag for these planned investments, on the order of \$3 billion, is quite large relative to the size of the Kyrgyz economy. The financing for these projects are to come from a combination of higher energy prices (ref A), loans from the Chinese and Russian governments, and privatization of some of the state owned electricity and heating companies. End summary.

New Energy Generation

[1](#)2. (SBU) In order to meet domestic electricity demand and generate export revenue the Kyrgyz government has long planned the construction of two new hydropower plants, Kambarata-1 and 2. Kambarata-2, with a projected capacity of 360 megawatts, was originally scheduled to begin operation in December 2009 but the first of three units is now scheduled to begin operation in June 2010. The Kyrgyz government announced in October that it did not have enough money to complete construction as planned. In response, the Kyrgyz government's Economic Development Fund is loaning Kambarata-2 a total of \$100 million. Completing construction of Kambarata-1, with a projected capacity of 1,900 MW, would cost approximately \$2 billion. At present, the financing for this project is still in question.

Creating An Independent Electricity Transmission System

[1](#)3. (C) The Kyrgyz Government also plans to invest in the country's electricity transmission system. Kyrgyzstan faces the threat that Uzbekistan and Kazakhstan will withdraw from the United Central Asian Power System, the Soviet era regional electricity transmission grid, effectively reducing the country's electricity supplies (ref B). Currently, electricity from Kyrgyzstan's hydropower plants in the north

of the country must pass through Uzbekistan to reach southern Kyrgyzstan. Uzbekistan can therefore shut off the supply of electricity to southern Kyrgyzstan. Uzbekistan has demanded higher fees for transmitting electricity for Kyrgyzstan and the Kyrgyz Government has apparently agreed, though the agreement has not been made public. Kyrgyzstan also depends on both the Uzbek and Kazakh grids to transmit electricity to parts of northern Kyrgyzstan.

¶4. (U) In order to create an independent electricity transmission system, the Kyrgyz Government plans to build new north-south high-voltage transmission lines. The U.S. Trade and Development Agency financed two feasibility studies of the proposed transmission lines which estimate the total construction cost will be over \$500 million.

Investment In Maintenance And Upgrades

¶5. (U) In addition to building new electricity infrastructure, Kyrgyzstan's existing electricity infrastructure also requires significant investment. Due to years of underinvestment (ref A), much of the electricity infrastructure is relatively old and poorly maintained, leading to frequent breakdowns and poor service. As well as investment in the existing hardware infrastructure, the electricity distribution companies require investment in their metering, billing, and customer information systems to improve the management of electricity distribution, which would also help address theft and corruption problems.

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Paying For It All: Higher Rates, Privatization, Loans

¶6. (U) In order to pay for all the projected investments, the Kyrgyz Government is counting on charging higher prices, privatization of some energy assets, and large loans from the Chinese and Russian governments. The Kyrgyz Government announced steep increases in electricity and heating prices in 2010 to cover more of the system's costs (ref A). In order to generate revenue and bring in private sector investment and management, the Kyrgyz government has unsuccessfully attempted to privatize some of the state owned electricity companies, including the Bishkek combined heat and power plant, and the four regional electricity distribution companies.

¶7. (U) The government once again tried to privatize the four electricity distribution companies in December 2009, but only the largest distribution company, which covers Bishkek, received bids. Three companies bid, from Kazakhstan, Russia, and Kyrgyzstan, none of them internationally renowned companies. The amounts of the bids have not yet been made public. The increased prices of electricity, especially if fully implemented, could make these companies more enticing for private investors both because their short-term profitability is increased and because the government has shown the political will necessary to increase prices to a level at which profitability is possible.

¶8. (C) The Kyrgyz Government is also looking to low-interest loans from Russia and China to help finance its planned investments. The Russian government, as part of the aid package it gave to Kyrgyzstan in 2009, agreed to lend Kyrgyzstan \$1.7 billion for construction of Kambarata-1, though the Russian government's commitment to this loan appears questionable. The Kyrgyz government is also discussing a \$900 million loan with the Chinese government to pay for energy infrastructure, including new transmission lines and new metering equipment. The U.S. Trade and Development Agency contractor who is completing a feasibility study on new high-voltage transmission lines told us that Kyrgyz officials insisted the study's section on financing costs use a 2 percent interest rate and a 20-year payback,

which are the terms the Kyrgyz hope to get from the Chinese.

19. (U) The cost of these proposed investments would be quite significant relative to the small size of the Kyrgyz economy.

It appears the total investment required for these projects would be roughly \$3 billion, including approximately \$2.1 billion for completion of Kambarata-1 and 2 and \$900 million of Chinese financed investment in the transmission and distribution systems. This investment would equal approximately 55 percent of Kyrgyzstan's Government projected \$5.45 billion 2010 GDP. However, given almost two decades without significant investment in the energy infrastructure of the country, and the blackouts to which the country has been subject each of the past few winters, that investment seems necessary.

MEMMOTT